WORLD BANK NEWS

Volume XII, No. 49 December 22, 1993

Peruvian Communities Reap Benefits From Social Investment Fund

For the past two years, many Peruvians have steadily improved their lives with the help of small grants from an innovative government program popular throughout Latin America. Using grants averaging $30,000, poor Peruvian communities have fixed dilapidated schools, repaired ailing health clinics and cleaned up local water supplies.

More than 6,000 of the community-based projects worth a total of $100 million have been approved since Peru's National Fund for Social Compensation and Development, known by its Spanish acronym FONCODES, started up in January 1992. On December 16, the World Bank approved a $100 million to help the decentralized government agency continue its work for the next four years.

"Local communities know what they need and they come to FONCODES for help," says Alexandre Abrantes, senior public health specialist in the Bank's Latin America and Caribbean Region.

"For example, a neighborhood on the outskirts of Lima may want to repair a run-down health clinic. Or a parents' committee in a mountain community may want to replace windows and blackboards in a school that has been ravaged by guerilla warfare. Some women who run *cocinas populares*, or community soup kitchens, have asked for money to buy start-up equipment."

FONCODES is the latest of the "social investment funds" that were pioneered in Bolivia and have since spread throughout Latin America and to several countries in Africa. Many Latin American countries, including Peru, have used the funds successfully because local communities are very strong.

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UNICEF/F. Ammann

Education projects will increase literacy among children, like this one working in a market in Peru.

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Social Fund Will Aid Peru's Poor

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Typically, the funds aim at helping those hurt by structural adjustment programs through the financing of small-scale development projects. Communities administer the projects while private contractors carry out the plans, using local labor and materials.

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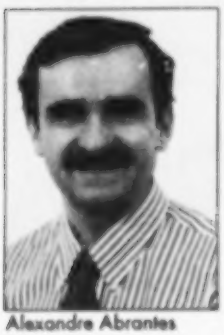

Alexandre Abrantes

Funds like FONCODES help meet community needs that come from the "bottom up," or from the people who are affected by projects, rather than from the "top down," or shaped and carried out by the government, says Abrantes.

The social investment funds have become the "rage" in the field of development in recent years, he adds. Because they involve local communities, the funds are often described with development buzzwords like "popular participation," or involving all affected groups in a project, or "local ownership," or making sure the affected groups run the projects for themselves.

But Abrantes says the funds have gained popularity for a good reason—they work.

"When Bolivia started its social development fund, it was feared that structural adjustment could worsen unemployment, cause prices to rise and income to fall, which would in turn cause a deterioration in the population's health," he says. "But we have seen that health indicators, namely infant mortality, did not deteriorate. These funds have been one way of strengthening the safety net and social services so the social effects do not get worse."

FONCODES will use the Bank loan to enable mainly the poor in rural and semi-urban areas carry out projects in health, nutrition, education and sanitation and also for creation of small-scale enterprises.

Health projects will include disease prevention campaigns, improving primary health care and family planning services and making nutritional supplements more available. Peru ranks near the lowest among Latin American countries in most poverty-related areas such as health. It suffers from a high prevalence of endemic diseases and new epidemics such as cholera. Infant and maternal mortality rates are also high and chronic child malnutrition is a serious and widespread problem.

Education projects will aim at improving pre-schools and libraries and will also include literacy campaigns. About 15 percent of Peru's population cannot read while only half of all children aged 3 to 5 attend preschool. Sanitation projects will focus on improving water treatment and sewage collection. Other projects will help build up economic infrastructure including wells, irrigation systems and electricity supplies. Small-scale enterpreneurs will also receive loans for creating "micro-enterprises" like small fisheries and for purchasing needed agricultural tools.

A small part of the Bank loan will help FONCODES improve its ability to monitor the projects it supports. Bank staff have judged nearly 80 percent of the agency's projects to be sound but the remaining are said to have problems because of weak supervision. Under the project, FONCODES will beef up its supervision by visiting project sites more regularly and by using its 21 regional offices more than in the past.

The FONCODES project has attracted a lot of donor interest, says Abrantes. The Inter-American Development Bank is expected to cofinance the plan with $100 million. Other donors, including the German development agency, the Kreditanstalt fur Wiederaufbau, will also contribute.□

Peru at a Glance

Population: 21.9 million

Annual Population Growth Rate: 2.2 percent

Economic Growth Rate (1980-91): -0.4 percent

Average Annual Income: $1,070

Life Expectancy: 63 Years

Infant Mortality Rate Per 1,000 Births: 53

Literacy: 85 percent

READEX
FICHE

Honduras' Social Investment Fund – Hard Work, New Hopes

by Ciro Gamarra

Aminta Mejía, a 49-year old former washerwoman of El Progreso, has learned a new trade. She makes corn tortillas to sell in San Cristobal, a poor neighborhood outside San Pedro Sula.

Marvin Zuñiga, 23, became an independent entrepreneur two years ago. His small workshop in Valle de Angeles produces quality leather goods.

A group of hard-working peasants are the proud cooperative owners of a prosperous agro-industrial plant that is one of the most important producers of palm oil in the country. After a five-year struggle, these families finally have access to water supply services to their homes in Las Palmas, a small village between El Progreso and La Ceiba, in northern Honduras.

The residents at the colonia Juan Lindo, a dusty and hilly neighborhood on the banks of the Guacerique River, 6 kilometers from downtown Tegucigalpa, will soon have sanitation services connected to their small houses.

Parents at the colonia La Era, in the capital city of Tegucigalpa, will no longer need to lend chairs and benches for their children to sit on at Miguel Andoni Fernandez school. A few months ago, the school received 100 new two-seater desks.

The common denominator among these people is the Fondo Hondureno de Inversion Social (FHIS, Hondura's Social Investment Fund), the focus of efforts by the government and myriad foreign international donors and local non-governmental organizations (NGOs) across the Central American country.

The FHIS was created by the Honduran government in 1990 as a three-year program to help channel resources directly from national and international sources to poorer communities to build infrastructure, provide for basic needs of the poor, and support informal sector small entrepreneurs. When the government underwent structural adjustment to restore economic growth, it decided to establish FHIS to alleviate the social cost of adjustment and improve the lives of the poor, so they too could benefit from the economic reform and growth.

The Fund is supported by the Bank through its concessionary lending affiliate, the International Development Association (IDA) has approved two credits, one of $20 million in February 1991, and another of $10.2 million in June 1992. In addition, IDA has helped mobilize other funding — $33 million in 1991 and $47.5 million in 1992—from 15 other sources.

C. Gamarra

Woman in the neighborhood of El Progreso displays a garment for sale in her shop, which she set up with assistance from Honduras' social fund.

The headquarters of the Fund at the colonia Lara in Tegucigalpa is busy with contractors, municipal representatives, NGO officials, and FHIS staff discussing the sub-projects.

Key elements of the operation are a wide array of non-governmental and private institutions that prepare and implement small sub-projects, particularly for basic needs and for the establishment of credit lines for small and medium size entrepreneurs in poor communities.

FHIS approves "sub-projects" in consultation with some ministries, such as education and health, but financial resources are channeled to NGOs or communities directly, and they, in turn, implement sub-projects with community forces or enter contracts with social enterprises under special expeditious procurement procedures. Thus, FHIS avoids the cumbersome bureaucratic procedures for traditional planning, budgeting, procurement and implementation.

Among the most important NGOs involved in FHIS

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Fund Helps the Poor Get Businesses off the Ground

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operations are Centro de Estudios y Promoción del Desarrollo (CEPROD), Fundación Nacional el Desarrollo de Honduras (FUNADEH), Centro de Desarrollo Juvenil y de Familia (CDJF), Asociación Nacional de Artesanos de Honduras (ANAH) and Agua para el Pueblo.

CEPROD, for instance, participates in adult literacy, improving conditions for women, community health and cooperative projects in the rural areas of the Yoro-Atlantico region, and medium and small industries support projects in the urban areas in the same region.

Through CEPROD, people like Nelson Arita, 38, and his wife, Myriam Mendoza, 30, obtained a 25,000 lempiras ($4,125) loan in November 1991 from FHIS' informal sector program (PASI). They were able to buy three sewing machines and hire more employees to expand production of shorts in their El Progreso workshop.

"It has been a great help, because we couldn't get such a loan from anybody else; we've attended courses in CEPROD to improve our small business," Mr. Arita said while cutting some pieces of cloth that the seamstresses will promptly assemble.

Another couple, Miguel Chávez and Olimpia de Chávez, obtained two FHIS loans from CEPROD: one of 2,000 lempiras (about $330) and another of 5,000 lempiras ($825) to buy raw materials to increase production of "pirulines," a sugary candy popular with children.

They have also benefited from CEPROD's technical support by attending a marketing course. They complained about a recent increase in the price of sugar, but, by selling 2,500 pirulines a week in a neighborhood grocery shop, they are able to support themselves and four of their six children.

FUNADEH also utilized a three-year 500,000 lempiras ($82,500) loan from FHIS to provide support to microentrepreneurs in San Pedro Sula. About 147 small loans have been provided, with excellent results, including arrears of less than 4 percent of the total.

The former laundress in El Progreso, Aminta Mejía, who five years ago started producing corn tortillas to support herself, used her 5,000 lempiras loan ($825) to repair the kitchen and buy corn, and now works seven hours a day to produce 1,000 tortillas with the assistance of a 14-year-old goddaughter.

Maria Juanita Martinez, 30, has equipped her beauty parlor, "Salon Heydi," with an FHIS loan through FUNADEH and now looks forward to establishing a small institute to teach her trade to young women. In the meantime, she works from 1 p.m. to 10 p.m. beautifying her customers, with a 10 lempiras ($1.50) haircut or a full perm and coloring for 200 lempiras ($30).

Similar assistance has been provided to an array of artisans through the ANAH that received a 200,000 lempiras ($33,000) loan from FHIS to support the activities of 70 of its 450 members. ANAH has an exhibition pavilion to sell the production of the artisans in Valle de Angeles, a village 24 kilometers west of Tegucigalpa which has become a tourist attraction because of its concentration of handicraft producers.

The loans from FHIS are especially valuable because they are accessible to micro-entrepreneurs with no capital. Most of the beneficiaries did not have access to commercial loans; they did not meet the requirements established by the banking system for lack of collateral, and the private lenders charged interest rates too high for them.

C. Gamarra

A tourist admires work by an artisan in a shop in Valle de Angeles.

Other important aspects of FHIS operations are the "social infrastructure" and basic needs projects. Among them, the provision of water supply and sanitation probably is the most dramatic in improving living standards in communities across the country.

An example is what happened at Las Palmas, a small village in El Negrito, Yoro.

The village is one of the urban settlements for the members of a string of 31 agricultural cooperatives that form Palmas Aceiteras de Honduras (HONDUPALMA), one of the largest producers of palm oil in Central America.

With the support of Agua para el Pueblo, another active NGO, and after almost five years of efforts, 328 houses were connected to water services. They were provided under a FHIS project of 928,000 lempiras ($153,000), including 300,000 lempiras mobilized by the members of HONDUPALMA to build a water supply system.

About 1,800 residents in the village received water directly in their houses from a reservoir built by FHIS and maintained by the community. Each member pays about 5 lempiras a month (about 80 cents) to a communal water administration board.

The programs supported by FHIS are expected to be completed by the end of 1993. The successful implementation of FHIS, which is based on Bolivia's Emergency Social Fund, has made an impact in spreading the example to other countries in Latin America.

At the request of member countries, the World Bank and IDA have made loans or credits for the establishment or strengthening of a Social Investment Fund in Guatemala, Nicaragua and Peru. A similar project is also being prepared in Ecuador. With the good use of these funds there is hope for poverty alleviation and improved lives of the poor in the region.□

Ciro Gamarra is a public affairs specialist in the World Bank's Latin America and Caribbean Department. This article is adapted from the November 1993 issue of The Bank's World *magazine.*

Development Agenda

Date	Event	Sponsor	Location	Telephone
JANUARY 1994				
14	Consultative Group Meeting for Kazakhstan	World Bank	Paris	(33-1)4069-3016
25	Economic and Social Council, Election of the Bureau for 1994	United Nations	New York	(212)-963-5739*
28-30	Annual Meeting	World Economic Forum	Davos, Switzerland	(41-22)736-0243
FEBRUARY				
14-18	Ninth Consultative Group Meeting	Common Fund for Commodities	Amsterdam	(020) 6646409
MARCH				
21-29	World Telecommunication Development Conference	ITU	Buenos Aires	(41-22)730-5111
28-29	Meeting on Population and Development	OECD	Paris	(202)785-6323*
APRIL				
4-7	Fifth Global Warming Science and Policy International Conference and Expo	Global Warming International Center	San Francisco	(708) 910-1551*
4-9	21st World Conference of the Society for International Development	SID	Mexico City	(0939) 6591-7897
11-13	Annual Meeting of the Board of the Inter-American Development Bank	IDB	Guadalajara, Mexico	(202)623-3435*
28-29	Annual Bank Conference on Development Economics	World Bank	Washington	(202)473-1062*

Editor's Note: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk (*) indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

West Bank and Gaza Strip Receive $570 Million

Officials participating in the first meeting of the Consultative Group for the West Bank and Gaza Strip reported on December 17 that commitments to the territories had reached $570 million for 1994.

The meeting, which took place in Paris, brought together 150 representatives from 24 donor countries, nine regional and international organizations and the Ad Hoc Liaison Committee Chair and Secretariat.

Participants at the meeting broadly endorsed the general contents of the Emergency Assistance and Technical Assistance Programs for the Palestinian Territories. They agreed that assistance should focus on emergency investments for 1994 and technical assistance needs for six months.

The donors generally appreciated the urgent need to provide recurrent expenditure support to the new Palestinian Administration. Reference was made to institution building, including the establishment of a police force, provision of relief for needy families to alleviate poverty, and creation of employment and rehabilitation of released detainees.□

WBN Holiday Break

World Bank News will not be published on December 30. The next issue of the newsletter will be off the press on January 6.

Weekly Lending Roundup

Colombia A $90 million World Bank loan will help 87 municipalities launch initiatives to develop secondary education. The plan aims to help an estimated 90,000 primary school graduates gain better access to secondary education.

Mali The government will take steps to provide farmers with agricultural technologies. The International Development Association (IDA) has approved a credit of SDR 14.2 million ($20 million) to aid the effort.

Nicaragua An IDA credit of SDR 10.8 million ($15 million) will help Nicaragua improve health conditions by supporting the government's new health sector strategy. The plan aims to improve the country's health ministry, improve service delivery quality and strengthen the sector's financing.

Pakistan The Province of Sindh will receive support for its policy reform program through an IDA credit of SDR 33.3 million ($46.8 million). Sindh, more urbanized than Pakistan's other provinces, aims to reform its urban sector and municipal governments.

$127 Million Pledged For Moldova

Ten governments and the Commission of the European Union met in Washington on December 16 and pledged $127 million in financial assistance to Moldova for 1994.

The pledges, along with assistance from the World Bank and the International Monetary Fund, aim to help Moldova stabilize and reform its economy. Much of the assistance will meet the country's pressing import needs, especially for energy, medicine and production inputs. A number of participants also indicated their intention to provide additional support in the coming year.

The meeting followed the first session of the Consultative Group for Moldova which met in Paris on October 26. In Paris, the international community was unanimous in its praise of the economic reforms under way in Moldova. It was agreed in Paris that participants would meet again to firm up specific external assistance pledges.

Participants at the Washington meeting were impressed by Moldova's efforts to date and by the country's resolve to proceed with market reforms under difficult circumstances.□

Corrections

Last week's issue of *World Bank News* incorrectly reported the price of a new publication. The correct price for volume I of World Debt Tables 1993-94 is $16.95. A set including Volume I and II is $125.

World Bank News last week incorrectly reported the location of a consultative group meeting for Bolivia. The meeting took place in Washington.

WORLD BANK NEWS

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World Bank News is published in English, French and German by the Information and Public Affairs Division of the World Bank's External Affairs Department, Washington, D.C. 20433, U.S.A. Maps appearing in World Bank News are for the convenience of readers. The denominations used and the boundaries shown do not imply any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries. (ISSN 0254 6353) Telephone: (202) 473-9661.

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